

Innovative Bio-Science

ONDERSTEPOORT BIOLOGICAL PRODUCTS Q1 Performance Report Presentation 2021/22

Presentation to the Portfolio Committee of Agriculture,
Land Reform and Rural Development

15 February 2022



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1. Executive Summary

- OBP has not managed to achieve its sales target for the quarter ending 30 June 2021.
- OBP generated gross sales of R34 million, compared to the budget of R44 million.
- There is an under-performance/ shortfall of R10 million.
- OBP's export sales are almost on track but do require attention as they are likely to fall behind if production challenges persist.
- Local sales are behind, and the sales Team needs to review strategy going forward that will drive recovery.
- A communique has been released as a starting point but will be supplemented by visits to top customers once COVID-19 restrictions are relaxed.



2. Financials



Quarter 1: Performance Report For Financial Year 2021/22

	QUARTER 1		JUNE YTD 2021		JUNE YTD 2020	Var	Full Year Budget 2021/2022
	Actual	Budget	Actual	Budget	Actual		Budget
OBP SOC LTD							
Gross Sales	34,009,319	44,052,938	34,009,319	44,052,938	46,416,213	▼	190,000,000
Local	15,765,555	24,229,116	15,765,555	24,229,116	28,520,944	▼	104,500,000
Export	18,243,764	19,823,822	18,243,764	19,823,822	17,895,269	▼	85,500,000
DISCOUNT GRANTED	(2,796,738)	(4,633,827)	(2,796,738)	(4,633,827)	(3,565,899)	▲	(20,900,000)
NET SALES	31,212,581	39,419,110	31,212,581	39,419,110	42,850,314	▼	169,100,000
Operating income	891,311	342,696	891,311	342,696	1,644,920	▲	1,343,533
Total Operating Expenses	(40,888,240)	(41,768,728)	(40,888,240)	(41,768,728)	(36,188,686)	▲	(154,833,330)
Personnel	(24,390,220)	(23,387,206)	(24,390,220)	(23,387,206)	(23,672,761)	▼	(93,446,325)
Travel	(272,478)	(643,750)	(272,478)	(643,750)	(31,001)	▲	(2,112,392)
Marketing	(64,830)	(977,800)	(64,830)	(977,800)	(150,796)	▲	(3,663,200)
Chemicals	(42,818)	(380,200)	(42,818)	(380,200)	(2,480,812)	▲	(1,363,499)
Water and Electricity	(1,469,116)	(2,979,750)	(1,469,116)	(2,979,750)	(1,727,104)	▲	(11,919,000)
Research and Development	(2,255,478)	(4,713,494)	(2,255,478)	(4,713,494)	240,520	▲	(13,287,296)
Audit services	(192,760)	(700,000)	(192,760)	(700,000)	(10,189)	▲	(3,280,000)
Insurance	(362,923)	(544,385)	(362,923)	(544,385)	(419,933)	▲	(2,279,378)
Amortisation and Depreciation	(2,166,906)	(3,155,083)	(2,166,906)	(3,155,083)	(3,018,035)	▲	(13,016,331)
Government grant	903,507	4,896,750	903,507	4,896,750	2,378,368	▼	19,587,000
Repairs and maintenance	(2,207,814)	(2,512,804)	(2,207,814)	(2,512,804)	(520,936)	▲	(7,854,517)
Animal Feed	(301,300)	(1,230,000)	(301,300)	(1,230,000)	(634,547)	▲	(3,455,000)
Coal	(376,577)	(496,250)	(376,577)	(496,250)	(166,800)	▲	(1,985,000)
Fuel and Motor Oil	(424,886)	(225,875)	(424,886)	(225,875)	(211,464)	▲	(919,500)
Other operating expenses	(3,365,018)	(1,970,510)	(3,365,018)	(1,970,510)	(2,416,141)	▼	(5,780,634)
Administrative Expenses	(3,898,621)	(2,748,371)	(3,898,621)	(2,748,371)	(3,347,055)	▼	(10,058,258)
Operation Surplus / (Deficit) before stock movements	(8,784,347)	(2,006,922)	(8,784,347)	(2,006,922)	8,306,548	▼	15,610,204
Inventory movements	(256,963)	(2,867,144)	(256,963)	(2,867,144)	(6,611,291)	▲	(4,922,000)
Cost of Sales	(5,465,168)	(8,836,441)	2,500,887	(8,836,441)	(17,184,452)	▲	(37,927,562)
Foot and mouth Cost of Sales	-	-	(7,966,055)	-	-	▼	-
Stock Write off	(857,571)	-	(857,571)	-	6,394,165	▼	-
Included in COS	6,065,777	5,969,297	6,065,777	5,969,297	4,178,997	▲	33,005,562
Operation Surplus / (Deficit) after stock movements	(9,041,310)	(4,874,066)	(9,041,310)	(4,874,066)	1,695,257	▼	10,688,204
Investment Income	(5,154,379)	3,744,500	(5,154,379)	3,744,500	6,072,579	▼	14,463,500
Interest received	79,652	2,790,500	79,652	2,790,500	2,984,161	▲	11,162,000
Forex gain/(Loss)	(5,234,032)	954,000	(5,234,032)	954,000	3,088,419	▲	3,301,500
CORPORATE TAX	-	-	-	-	-	-	-
Net Surplus / (Deficit)	(14,195,689)	(1,129,566)	(14,195,689)	(1,129,566)	7,767,837	▼	25,151,704

Financial Analysis

Revenue

For the quarter ending 30 June 2021, OBP generated gross sales of R34 million, compared to the budget of R44 million. There is an under-performance of R10 million.

Category (R'000)	Q1 – Jun 2021/22 YTD	Q1 - Jun 2020/21 YTD	%
Vaccine Sales	34 009	46 416	97%
Distribution Income	392	963	1%
Dry ice	119	115	1%
Media Sales	25	30	0%
Rental Income	83	159	0%
Other Income	257	367	1%
	34 885	48 050	

Vaccines sales revenue contributes 97% to OBP's overall revenue.



Per Market

	2021/22 Jun YTD	2020/21 Jun YTD	2021/21 Jun YTD % Composition
Local	15 692	20 698	46%
Export	18 244	17 895	53%
Government	74	7 823	1%
	34 009	46 416	

The Local market sales equates to 46% of the total sales for the period ended June 2021, while the export market equates to 53%. The government sales contributed 1%.



Discount granted

During the quarter OBP offered R 2.8 million discounts to the customers compared to the budgeted R4.6 million. This was attributed by the over achievement of the sales during the quarter. The current year average discount rate is 8%.

Broadly OBP offers discounts to its clientele at rates depicted below.

Approved Discount structure was adopted during the 2016-2017

1. Customer/Category	1. Discount Rate
Wholesalers	10%
Government and approved BEE companies	17.5%
Vets	5%
Co operatives	5%
Exports	Min 10% otherwise negotiable (sale by sale)



Operating income

Operating income of R 891,311 compared to a budget of R 342,696 for the quarter was achieved. Operating income constitutes of distribution, dry ice, rental of accommodation, bad debts recoupment and the sale of raw materials.

Distribution income of R 392,158 was realized for the shipment of vaccines. Customers have an option to opt for collecting their products for request for internal shipment.

OBP leases some of its premises to employees, just nature and Vodacom and the rental derived from these premises amounted to R 83,456.

Operating expenses (OPEX)

Operating expenses amount to R40.9 million with a budget of R41.8 million for the quarter ending 30 June 2021. The company has underspent by more than R0,9 million.

The table below indicates the cost for the period under review of actual expenses for OBP.

Fixed Costs and Variable Costs (Jun 2021 – Q1)

	R'000	Fixed Costs and variable costs
Payroll	24 390	Fixed
Repairs and Maintenance	2 208	Fixed
Production Material	2 669	Variable
Depreciation	2 167	Fixed
Animal feed	301	Fixed
Travel	272	Variable
Marketing	65	Fixed



(a) Employee Costs

The employee costs continue to be the biggest contributor to the business total cost component. The period under review; employee costs amounted to R24.4 million as compared to the budget of R23.4 million

(b) Travel

The entity has under spent on travelling costs incurred for the current quarter which is a cost saving. Actual spent is R 272,478 compared to the budget of R 643,750. This is due to the country being on lockdown due to the COVID-19 pandemic.

(c) Marketing

Not many activities relating to marketing were conducted. Most of the activities requires one to travel but due to lockdown restrictions the entity under spent on marketing costs. Current expense for the quarter amounts to R 64,830 as compared to the budget of R 977,800.

(d) Chemicals

The entity has under spent during the current under review. Actual amount of chemicals procured for the quarter is R 42,818 with the allocated budget of R 380,200. This was a cost saving for the entity.



(e) Water and Electricity

OBP and ARC/OVI share the electricity connection from the City of Tshwane municipality whereby the bill is sent to ARC. OVI has changed to a prepaid meter since September 2015 which is shared with OBP. The bill is then split into two between OBP and ARC. For the current quarter under review, actual spent on water and electricity is R 1,469,116.

(f) Research and development

Research and development costs for the period under review under-spent by R 2.5 million. The anticipated expenditure by R&D might have been interrupted by the continuing national lockdown. The budget for the quarter was 4.7 million.

(g) Audit fees

Actual spent amounted to R 192,760 as compared to the budget of R 700 000. The costs are expected to increase in the next quarter as the audit is currently in process.

(h) Insurance

Current spent amounts to R 362,923 compared to the budget of R 544,385.



(i) Amortisation and Depreciation

Entity's assets are depreciated over their various useful lives. During the quarter, the recognized wear and tear of assets is R 2.2 million as compared to a budget of R 3.2 million.

(j) Government grant

Grant is recognized after fulfilling the requirements stipulated on the contractual agreement. The current grant recognized for the quarter under review amounts to R 903,507 with the budget of R 4.9 million. The underspent was mainly due to the under spend by research and development department. The department has various grants awarded to them.

(k) Repairs and maintenance

The repairs and maintenance for the quarter were overspent by R 304 990. The costs of repairs were attributed by old infrastructure/ equipment that is constantly breaking down.



(l) Animal Feed

The cost category represents the feed for both our big and small animals we use in the testing for our products. For the period under review animal feed cost amounted to R 301,300 compared to the budget of R 1.2 million. There is a cost saving of R 928,700. The entity embarked on a plan to release animals that are not in use. This has paid off to cost saving measures as compared to the same period in prior year.

(m) Fuel

Fuel is mainly used when there are power cuts. During the current quarter the entity spent R 424,886 which was over the budget of R 225,875.

(n) Coal

Boilers mainly uses coal to produce steam that is being utilized by production departments. Actual expenditure for coal is R 376,577 compared to a budget of R 496,250.



(o) Other operating expenses

The entity has overspent on other operating expenses. Actual expenditure for the quarter amounted to R 3.4 million and the budget was R 2 million. Included in other operating expenses are costs like consumable stores amounting to R 1.9 million and delivery costs of R 467,241.

(p) Administrative expenses

The company has overspent for the quarter under review. Current quarter spent amounted to R 3.9 million with an allocated budget of R 2.8 million. The major expense is professional fees amounting to R 847,068, computer repair and support of R 201,892, security costs of R 738,709, and rental of garment amounting to R 485,603.

(q) Inventory movements

During the quarter under review, inventory movement amounted to R 5.5 million with the budget of R 8.8 million.

(r) Interest on investments

The interest on investments for the quarter ending 30 June 2021 of R 79 652 was realized against the budget of R2.8 million. Interest is slowing down because of cash being depleted as GMP payments are being executed



3. Measuring Outcomes



Programme:
Purpose:

Financial Sustainability
To increase revenue and profitability

			Annual Targets	Quarter Target	Actual Performance	Variance	Reason for variance	Action Plan
Outcome	Outputs	Output indicator						
Financial Growth and Sustainability	Income	Increased Revenue (R)	R190m	44 Million	34 Million	-10 Million Not achieved	Insufficient supply of product to the market. Equipment breakdown which disrupted production.	Focus on bulk orders (Export tenders, and supply backorder once products become available)
	New products	Number of new products dossiers submitted to regulatory authorities for registration	2	0	0	0	6 monthly target	No new product dossier was planned for quarter 1
	Product dossier submitted to new markets	Number of product dossier submitted to new markets	2	0	0	0	6 monthly target	No new product dossier was planned for quarter 1
	A positive EBITDA	Revenue less expenses, before interest, tax, depreciation and amortisation (R)	3%	-	-	-	-	Target only in place for Q4, It only has an annual measure of 3% overall increase from prior year.
	Vaccines sold	Increased vaccine doses sold (%)	8%	2%	-22,4%	-24.4% Not achieved	Unavailability of products. The -22.4% is actual performance for this quarter and came as a comparison with Q1 of 2020. The variance will be -22.4% -(+2) = -24.4%	Focus on bulk orders and backorders

Programme: Continuous Improvement of Business Processes

Purpose: To ensure the supply of improved quality products to the market through advanced technology.

Outcome	Outputs	Output indicator	Annual Targets	Quarter Target	Actual Performance	Variance	Reason for variance	Action Plan
Optimised business processes	Improved Production Efficiency	Production efficiency index	8%	8%	7%	-1% Not achieved	Production equipment breakdown	Production equipment repair, develop and implement equipment maintenance plan.
	Implemented action items against the GMP roadmap	Percentage of achieved progress on action items against the GMP roadmap	40% of GMP roadmap achieved	10%	0%	- 10% Not achieved	Staff shortage and resignation of QA manager. Acting QA manager currently in hospital	Appoint QA manger, then continue with the implementation plan
	ICT enterprise architecture plan	Improved ICT Systems / Board approved plan to inform ICT strategy	Approved ICT Enterprise Architecture Plan	Collect Information		Achieved		All information has been collected as per the Q1 target
	Accredited Vector Proof Facility Approved facility	Progress report as per project plan	Vector proof stable	Re-advertise Tender	Not achieved	Tender process restarted	Tender not approved	Restart tender process
	GMP facility	Progress report as per project plan	100% Completion of Phase 1 / 50% of Phase 2	25%	0%	-25% Not achieved	No additional building activities have been conducted in Q1 due to dispute with Engineering company.	Dispute referred to legal, once resolved continuation of building activities will follow.
	Production Output of Top 20 products	Percentage of top 20 products produced	90%	86%	50%	-36% Not achieved	Production equipment failure	Production equipment repair, develop and implement equipment maintenance

Programme: Governance and Leadership

Purpose: To drive an ethical and accountable corporate culture.

Outcome	Outputs	Output indicator	Annual Targets	Quarter Target	Actual Performance	Variance	Reason for variance	Action Plan
Capable Ethical and Developmental Leadership	Board approved policies	Number of reviewed policies approved	14	3	0	-3 Not achieved	No board meeting was held in Q1. No policy would have been approved as the board meeting was scheduled outside Q1	Policies have been reviewed by EXCO to be submitted to the board for approval
		Number of new policies/ frameworks developed	2	0	0	0		Policies and framework to be approved in Q2
	Staff Retained	Number of employees that resigned	5%	5%	3%	2% Achieved	Resignations in line with minimising resignation of employees. Not everyone resigned, left the organisation.	Develop strategy on retention
		Number of employees dismissed/ retrenched	1%	1%	0,46%	0,54% Achieved	Minimising dismissals and retrenchments of employees where possible is practiced.	Training of employees on discipline and disciplinary code
		Number of employees that retired	3	2	1	1 Achieved	Not all employees resigned during the estimated resignation period	Will be done as per retirement age
	Report with recommendations from the culture survey	(%) implemented recommendations from the report	65%	25%	Not done	-25% Not achieved	HR Management turnover	Analysis and implementation to be done in Q2
	Trained staff as per Workplace Skills Plan (WSP)	(%) implemented staff training against the WSP	80%	20%	0	-20% Not achieved	No handover process. No training was planned for the quarter. Structures and Job profiles to be reviewed. Training alignment with skills audit outcomes and job function	Priority training to be identified. Focus on legal and compliance training Schedule IR/ER training for managers

4. Overall Performance

Number of Planned Targets for the Year	Number of Targets Planned for the Quarter	Number of Targets Achieved in the Quarter	Number of Targets Not Achieved in the Quarter	Number of Targets Not Reported in the Quarter	% of Achievements for the Quarter
23	17	6	11	6	35%

NOTES

- Reasons for deviation are captured for both achieved and unachieved KPIs.
- Indicators not meant for reporting in this quarter have also been indicated.

